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GATINEAU POWER COMPANY

TO THE COMMON SHAREHOLDERS:—

The Directors of your Company at a Meeting held on February 26 considered the OFFER of Hydro-Quebec to purchase common shares of the Company at \$35.00 (Can.) per share in the light of various reports placed before them, including a preliminary evaluation of the Company's fixed assets prepared by Messrs. Surveyer, Nenniger & Chenevert, Consulting Engineers.

This preliminary evaluation, which was supported by studies by the Company's officers, has indicated that on the basis of valuing (a) the fixed assets at reproduction cost new, less depreciation, (b) inventories, tools, transportation equipment, furniture and non-depreciable assets, including land and undeveloped power sites, at cost or prices determined by the officers of the Company, each Common Share has a present fair value in excess of \$50. It should be noted that this amount, if determined by the Courts as being fair compensation for the shareholders, would be received by the shareholders free of any Canadian tax.

In considering whether the fixed assets of the Company should be valued on a basis of reproduction cost new, less depreciation, your Directors had in mind the recent experience of the Company in the expropriation by the New Brunswick Electric Power Commission of the Company's system in New Brunswick, where the principle of reproduction cost new, less depreciation, was accepted as a fair basis for valuing the expropriated assets.

However, in the light of published correspondence between the Prime Minister of Quebec and another power company, it was felt proper to inquire of the Prime Minister as to the basis upon which a Court might determine the compensation payable in the light of his declaration of September 19, 1962, namely:—

"Shareholders of these companies will receive fair compensation, to be fixed in taking into strict account the legitimate interests of the shareholders and the taxpayers. This compensation shall be subject to final determination by the Courts."

In this connection the Prime Minister was asked if the Courts would have the choice of determining the basis for compensation.

In his reply of February 14, 1963, the Prime Minister said:

"The reference to the decision of the House of Lords on a matter of English legislation had no other purpose but to underline certain possibilities, in order that no one should be mistaken as to the meaning of recourse to arbitration by the Courts."

In the decision referred to by the Prime Minister the House of Lords was considering an expropriation order, which said

"the price to be paid in respect of any shares transferred . . . shall be . . . a price which, in the opinion of the Treasury, is not less than the value of those shares as between a willing buyer and a willing seller"

and held that it was the value of the shares and not their proportionate share in the assets of the Company which was to be determined.

It was further decided that the value of the shares was best ascertained from the prices ruling on the London Stock Exchange at the date of expropriation.

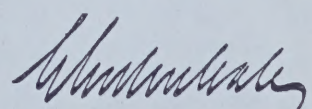
It was therefore necessary for the Directors to consider the import of the following excerpt from the Prime Minister's statement made when he announced the Hydro-Quebec OFFER to the Common Shareholders on December 28, 1962:

"The compensation offered is based on an appraisal of the fair market value of each security. Consideration has been given to all criteria used in valuing securities, according to their relative importance in each case, such as the earnings of each company, its future prospects, its cash flow and all factors likely to affect it, recent and past stock market quotations of listed shares, the rate of interest on the funded debt, special dividends paid and the condition of the undertaking."

In light of the Prime Minister's letter and the quoted excerpt from his statement, your Directors have concluded that, if the Hydro-Quebec OFFER is not accepted and expropriation becomes necessary, the authorizing legislation will provide for the fair market value of the shares to be determined on the same basis as mentioned in the quoted excerpt.

Consequently, notwithstanding the apparent insufficiency of the \$35.00 (Can.) per share offered, when compared with the Company's estimate of the present fair value of the common shares, your Directors have concluded that the OFFER should be accepted by the Common Shareholders. Such a course will be followed by the Directors. "

Yours very truly,


President

Hull, P.Q., March 11, 1963

(français au verso)

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